



MT 9013 Human Resource Development

# Marketing Research for Entrepreneurs and Small Business Managers

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In a previous MontGuide, "Basics of Marketing for Small Businesses and Entrepreneurs" (MT 9012 HR) four key steps for successful marketing are identified:

- 1) understanding the customer,
- 2) making value for your customer,
- 3) communicating your value to your target market, and
- 4) making it easy for the customer to buy.

Together these four steps comprise what is called the **marketing concept**, the most accepted way for small and large businesses to market successfully. In order to implement this marketing concept, firms need specific information that helps determine which marketing activities are both customer driven as well as profitable for the organization. **Marketing research** can provide that information to the manager.

Studies indicate that small businesses are less likely than large businesses to use marketing research in their decision making. Reasons cited include monetary and time expenses, skepticism about potential benefits of marketing research, and the owner/manager's self-perceived inability to carry out the study.

Many small businesses avoid marketing research because they misunderstand what it is and what it can accomplish. Following are several questions commonly asked by small business managers and entrepreneurs about marketing research. A basic answer is provided after each question. After you read these questions and answers, you should have the necessary information to begin conducting marketing research as part of your own marketing activities.

## What is marketing research?

Business owners and entrepreneurs acquire information through marketing research that helps identify and

define marketing opportunities and problems; generate, refine and evaluate marketing actions; monitor marketing performance; and improve the understanding of marketing as a process.

## What is the purpose of marketing research?

One of the difficulties companies face with marketing occurs when the owner/manager thinks he or she knows what the customer wants, how they want it, where they want it and when they want it. Not enough customers, insufficient revenues and excessive inventories indicate that the customer's needs are not being met. Marketing research can help find the problem and identify a solution. It helps managers to look outside of themselves for solutions.

## What are some common misconceptions about marketing research?

First, many think that a small business should only initiate marketing research when it is making a profit. However, the need for information about customers or competitors is often greatest when the business is *not* profitable. Research can provide the information necessary for the firm to redirect its marketing efforts so as to become profitable.

Sometimes managers believe that unless research provides a complete description of a situation it is of no value. On the contrary, a little or some information can often help direct the firm to the appropriate course of action. In addition, if the manager seeks perfect information, by the time the information is acquired it may be irrelevant because the situation has changed.

The "big decision" myth also limits the use of marketing research. Marketing research can help with **both** big and small decisions.

Businesses often rely on surveys too much. There are many other ways to acquire information, such as census data or observation of customers.

The misconception that marketing research requires big bucks often stymies research. Marketing research can be done at many different levels both big and small. Many research projects can and are being completed for \$1000 or less.

Another misconception is that you can not do research unless you are a sophisticated researcher. You don't need a Ph.D. in marketing or statistics to do marketing research. It is mostly just hard work. Consult a good marketing research text and/or bring in a consultant for advice and then just dig in and do it.

## Is marketing research worth the expense?

A survey of small business managers in Texas revealed that 84 percent of those who conducted formal marketing research projects in the past three years felt that the information obtained was worth the money spent. Overall, 58 percent said that they were able to incorporate the research findings into their decision-making process. Only six percent reported that they were not able to implement the results. Consequently, when small businesses do engage in marketing research the benefits usually exceed the costs.

## **How large should your research budget be?**

Many companies have marketing research budgets that range anywhere from .02 to 1 percent of company sales. It is not unusual to spend 50 percent or more of the marketing research budget buying research from consulting firms.

## **What topics are addressed through marketing research studies?**

Marketing research can help small businesses answer the following ten crucial questions:

1. What should you market goods, services or both?
2. Should your marketing feature some sort of price advantage?
3. Should you emphasize your self, your quality offerings, your selection, your service or merely the existence of your business?
4. Should you take on your competition or ignore all competitors?
5. Exactly who are your competitors?
6. What are your best prospects?
7. What income groups do they represent?
8. What motivates them to buy?
9. Where do they live?
10. What do they read or watch or listen to in the way of media?

## **What are the two basic types of marketing research?**

The two basic types of marketing research are quantitative and qualitative. Quantitative research answers questions that start with "how many" or "how much." Qualitative research addresses issues that deal with "why" or "how." Quantitative research usually involves surveys, while qualitative studies rely on observation or unstructured conversations with customers.

## **What is the process for quantitative studies?**

The marketing research process consists of the planned, systematic gathering of market information to assist in managerial decision making. The information gathering should not be approached haphazardly, but should follow these steps.

### **Step 1. Define the Purpose and Objectives of the Research**

The old saying, "it's more important to do the right thing than to do things right" applies to marketing research. Exploring the wrong issue or asking the wrong questions, no matter how efficiently, will result in useless information.

To avoid studying the wrong thing, state the purpose of the research in written form and refer to it during each stage of the research process. For example, "The purpose of this study is to identify why local residents prefer to shop in another community rather than in their home community." The purpose of a marketing study relates to the specific problem, decision or question that necessitated the research. In addition, declare specific objectives for the study and use them in the study design. A general public study might have the following objectives:

Identify where potential customers go to purchase the goods or service in question.

Why do they choose to go there?

What is the size of the market? How much of it can the business capture?

How does the business compare with competitors'?

What impact does the business's promotion have on customers? What types of products or services do potential customers desire?

## **Step 2. Determine Data Sources**

Generally, data sources include secondary or published sources and primary sources (those requiring original research such as surveys, experiments and observation). Secondary sources can provide a wide range of information and should be consulted first. If they do not provide the information necessary to address the research problem then primary data needs to be collected. Many useful sources are listed at the end of this guide.

## **Step 3. Develop the Data Collection Instrument**

If you need to collect primary data, you must construct a data collection instrument. In most cases this consists of a questionnaire. Again, quality questionnaire construction requires reference to the purpose and objectives of the study.

Usually a questionnaire consists of three sections. The first is generally a request for cooperation. This can take a "help the sponsor" or a "help us serve you better" approach, or offer a small monetary or nonmonetary incentive.

Next comes the main body of questions. This constitutes the major portion of the questionnaire. Keep to the objective of the study.

The final section of the questionnaire usually contains classification questions. These questions ascertain information on the characteristics of the respondent, such as age, sex, income, education, marital status and any other information that may be of interest to the small business. Classification questions should offer specific response categories rather than asking respondents to supply specific information. Respondents usually are more willing to check a category such as 55-65 or \$25,000-\$35,000 than to report exact age or

income.

Consider the following criteria when developing a questionnaire:

1. **Relevancy:** Does the question relate to the topic? Each question and each word in each question should be viewed by the researcher and respondent as relevant.
2. **Brevity:** Questions should be 20 words or less excluding answer categories.
3. **Objectivity:** Questions should not suggest a particular answer by leading the respondent.
4. **Nonambiguity:** Is the question expressed clearly? Avoid unfamiliar words and words with unfamiliar meanings as well as words such as near, much, most, few, often and occasionally. Also avoid should, could and might.
5. **Specificity:** Can potential study participants answer the question? Does the question demand knowledge and information that the respondent does not have? Respondents sometimes provide answers to questions regardless of knowledge so that they do not appear ignorant.
6. **Vocabulary:** Can potential study participants understand the question? Select words that the least educated respondent can understand. The language should be natural and familiar.
7. **Question type:** Should the information be gathered using an open or closed question?

Open-end questions are imperative when a researcher wants to assess top-of-the-mind awareness of a product or brand through unaided recall. Open-end questions should be used when a researcher wants to take special care not to influence question answers.

Closed-end questions will be aided by definition, since possible answers are provided. The possible answers are known prior to data gathering. Only the frequency with which answers are given is unknown. Potential limitations of closed-end questions include:

- position bias--the order of the responses can influence choice. This is particularly important for non-factual, e.g., "reasons why" questions.
- response categories need to be mutually exclusive (no overlapping categories) and collectively exhaustive (all possible categories).

The only way to know if your data collection instrument is ready to use is to have several people try it. This is known as **pretesting**. Pretest your data collection instrument on people who are as similar as possible to the research population with respect to age, education, knowledge of the market and other factors that could influence the quality and quantity of data collected. When pretesting, ask your testers to fill out the instrument in the same manner in which you anticipate collecting the data, i.e., if you plan a telephone survey, personal interviews or mail survey, then pretest over the telephone, in an interview setting or have people fill out the questionnaire without assistance. After the test group has completed the instrument, ask if there were any questions they did not understand. In an effort to avoid looking stupid, respondents may fill out a question even if they do not understand it. Also check to see if the response categories are appropriate. Sometimes you will need to add another category or revise the wording of possible responses.

## **Step 4. Design the Sample**

"The more, the better" is not true of sample size. Quality is more important than size. The goal of sampling is to obtain responses from representatives of the entire population of interest. Simply interviewing friends or those who only shop on Saturdays will probably not result in reliable data. Those not interviewed may differ from those interviewed. Consult a marketing research text for more information on sampling designs.

## **Step 5. Data Collection**

Data collection typically involves supervising those collecting the data. The first concern is to make sure that interviewers adhere to the sampling design. Interviewers may be tempted for convenience's sake to include individuals who do not meet the sample design requirements. Or they may not understand who they should contact. In either case, the sample may not represent the population of interest.

Secondly, the manager needs to control for problems that may occur during the actual interview or data collection activity, such as interviewers asking questions incorrectly or in any way that may elicit biased, incorrect or incomplete responses.

## **Step 6. Data Analysis**

The first step in data analysis is to record the answers for each question for every respondent. This can be done by coding the information into a computer and then getting frequency distributions or tabulations, or it can be done by hand. Determining the most frequent response or the average response may provide additional insight. These summary calculations provide the small business manager with an overview of the survey information.

Data analysis should not end with summary information. It should also include some cross tabulation of the responses. Cross tabulation consists of analyzing the responses to one question separately for each category of another question. For example, do responses of frequency of purchase vary between men and women, or between younger and older respondents? These cross tabulations can provide valuable insights into the subject of interest. In some cases data analysis may include more than descriptive information and cross tabulation. It may also include statistical tests for differences in the answers given by different types of respondents. The proper use of simple statistical tests such as the Chi-square test (for differences in frequency distributions), the t-test (for differences in two means), and analysis of variance (for differences in more than two means) can be found in a basic marketing research text. A good marketing research text is listed at the end of this MontGuide.

## **Step 7. The Final Report**

After completing the data analysis, a final report should summarize the results of the research project. In some cases, a small business manager may not want to take the time to prepare an extensive report. However, he or she should require the report if the research was conducted by someone outside of the firm. Reports should summarize all the steps in the project and completely summarize the findings. Most importantly, the report should specify the strategic implications of the findings.

## **Step 8. Take Action**

After gaining an understanding of the research findings, establish a definite plan of action based on the implications of the findings. The ultimate purpose of the marketing research project is to improve the quality of managerial decision making and thereby improve business performance.

## **Where can I get help with marketing research?**

Consulting services for marketing research are offered by private marketing research firms and advertising agencies. Another useful source is to use marketing professors at a nearby university. Your local library will often have a wealth of information for little or no cost to you. Not only is the use of reference librarians inexpensive, but they can also direct you toward information you may never have considered. Specific sources that you should consider using include:

The Statistical Abstract of the United States, a U.S. government publication containing information about consumer markets, price levels, etc.

American Demographics magazine has several articles in each issue that identify social and economic trends in our economy.

County and City Data Book and other government documents could provide useful information about your market.

Also, libraries often have indexes that offer information on specific topics.

For company and industry information consult:

American Almanac of Jobs and Salaries,

Encyclopedia of Associations,

Moody's Complete Corporation Index,

Standard and Poor's Register of Corporations,

Telephone directories, and

Ward's Business Directory.

There are also several good marketing research texts that can offer more detailed explanations of material covered here. Consult your librarian for marketing research books or purchase a marketing research book. One recommended text is:

Marketing Research in a Marketing Environment by Dillon, Madden and Firtle, Times Mirror/ Mosby College Publishing, St. Louis, 1990. This book is more advanced and requires a basic understanding of statistics.

The Internet can also be a useful source of market research information. Some helpful sites include:

The American Demographics Web site

<http://www.marketingtools.com>

Excerpts from the Statistical Abstract of the United States

[http://www.medaccess.com/census/census\\_s.htm](http://www.medaccess.com/census/census_s.htm)

An index of U.S. Government sites maintained by the U.S. Government Printing Office

[http://www.access.gpo.gov/su\\_docs/dpos/pathbrws.html](http://www.access.gpo.gov/su_docs/dpos/pathbrws.html)

U.S. Census Bureau Home Page <http://www.census.gov>

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